

Message Text

CONFIDENTIAL

PAGE 01 BOGOTA 00770 242117Z

64

ACTION EB-03

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 6726

C O N F I D E N T I A L BOGOTA 770

LIMDIS

EO 11652: GDS

TAGS: ENRG CO

SUBJ: AMBASSADOR MAILLIARD'S MEETING WITH PRESIDENT LOPEZ: OIL
AND FOREIGN OIL COMPANIES

1. DURING HIS HOUR LONG COVERSATION WITH AMB MAILLIARD JAN 23, PRESIDENT LOPEZ BROUGHT UP THE PROBLEM OF DOMESTIC OIL PRODUCTION AND THE ROLE OF FOREIGN OIL COMPANIES, WHICH HE TERMED A VITAL ISSUE. THE PRESIDENT NOTED THAT PETROLEUM PRODUCTION WAS BEGINNING TO DECLINE AND COLOMBIA FACED THE PROSPECT OF BECOMING A PETROLEUM IMPORTER. THE NEED TO IMPORT OIL WOULD DESTROY ALL RECENT EFFORTS TO BETTER THE ECONOMY AND WOULD BE A CATASTROPHIC BLOW TO THE NATION'S ECONOMIC HEALTH.

2. THE PRESIDENT SAID THAT THE PROBLEM LAY IN THE GOVERNMENT CONTROLLED PRICE FOR CRUDE, WHICH HE AGREED WAS TOO LOW TODAY. TO RAISE THE PRICE, HOWEVER, PRESENTED SERIOUS DOMESTIC POLITICAL PROBLEMS AND THEREFORE IT WAS IMPORTANT TO FIND A WAY TO DO SO THAT WOULD BE TOLERABLE. THE PRESIDENT SHOWED US GRAPHS INDICATING THAT PRODUCTION IN FIELDS WORKED BY FOREIGN OIL COMPANIES SHOWED A DECLINE IN THE PAST YEAR OR SO, WHILE THE PRODUCTION OF ECOPETROL AND ONE SMALL BRAZILIAN/ECOPETROL OPERATION SHOWED EITHER STEADY OR INCREASING PRODUCTION. THERE MIGHT BE SEVERAL REASONS FOR THIS AND IT COULD BE THOUGHT THAT THE COMPANIES

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BOGOTA 00770 242117Z

DELIBERATELY DECREASED PRODUCTION TO PLACE PRESSURE ON THE GOC

FOR A PRICE INCREASE. HE WAS, HOWEVER, NOT SAYING THAT WAS THE REASON. HE DID NOTE THAT THE FACT THAT FOREIGN COMPANIES' PRODUCTION WAS DECLINING WAS BEGINNING TO BE SEEN IN POLITICAL CIRCLES AND THE PUBLIC AS A KEY FACTOR. CONSEQUENTLY, HE SAID THERE WAS GROWING SENTIMENT FOR THE GOC TO PUT PRESSURE ON THE FOREIGN COMPANIES EVEN FOR NATIONALIZATION. THE GOVERNMENT DID NOT WANT TO GO DOWN THAT ROUTE. IT WAS ESSENTIAL, HOWEVER, FOR SOME PROMPT ACTION TO BE TAKEN TO INCREASE PRODUCTION BECAUSE TO BE PLACED IN A PETROLEUM IMPORTING POSITION WAS POLITICALLY AND ECONOMICALLY INTOLERABLE.

3. THE PRESIDENT SAID THAT THE GOC COULD NOT POLITICALLY AFFORD TO APPEAR TO BOW BEFORE FOREIGN COMPANIES' PRESSURE. THAT WAS THE PROBLEM WITH A SITUATION WHICH FOREIGN COMPANIES' PRODUCTION WAS DECLINING WHILE ECOPETROL'S WAS INCREASING. TO SIMPLY RAISE PRICES TO INDUCE THE FOREIGN COMPANIES TO INCREASE PRODUCTION WILL BE SEEN DOMESTICALLY AS BOWING BEFORE THE OIL COMPANIES' BLACKMAIL. IT WAS NOT POLITICALLY POSSIBLE. THEREFORE, THE GOC WANTED TO FIND SOME FORMULA WHEREBY THE PRICE INCREASE, WHICH HE FULLY CONCEDED WAS NECESSARY, COULD BE ACHIEVED.

4. THE PRESIDENT SAID THAT WHAT THE GOC WAS CONTEMPLATING WAS SEEKING SOME SORT OF PARTICIPATION WITH THE FOREIGN OIL COMPANIES. THEN THE PRICE INCREASE COULD BE SEEN AS BENEFITING BOTH THE COMPANY AND THE GOVERNMENT AND WOULD BE POLITICALLY FAR MORE PALATABLE. THE IMMEDIATE GOAL WOULD BE TO INCREASE PRODUCTION OF SECONDARY RESERVES, WHICH IS EXPENSIVE AND NOT POSSIBLE UNDER EXISTING PRICE STRUCTURE. THE OOC WOULD BE WILLING TO CONTRIBUTE TO THE INVESTMENT. IN RESPONSE TO SPECIFIC QUESTIONS, HE SAID HE DID NOT WANT TO GET INTO THE COMPLICATED TECHNICALITIES, BUT PARTICIPATION IN AND RELATIVE EQUITIES OF A JOINT ENTERPRISE COULD BE FORMED ON THE BASIS OF ESTIMATES OF PRIMARY AND SECONDARY RESERVES, AND THAT CONSEQUENT SHARING OF INVESTMENT COSTS AND SPLITTING OF INCOME COULD BE DETERMINED.

5. THE PRESIDENT SAID HE HAD JUST BEGUN TO EXPLORE THIS IDEA WITH TEXAS WHICH IS THE LARGEST PRODUCER BUT HAD NO REACTION YET. HE STRESSED THAT WHILE HE UNDERSTOOD THE COMPANIES' POSITION AND THE NEED TO INCREASE PRICES, THE POLITICAL/ECONOMIC NEED TO MOVE FAST WAS NEVERTHELESS GREAT, AND SOME SOLUTION OR FORMULA

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BOGOTA 00770 242117Z

HAD TO BE FOUND IN THE NEXT SEVERAL WEEKS. IF IT WAS NOT, THE PRESSURES WOULD GET OUT OF HAND AND THE GOC WOULD FIND ITS ALTERNATIVES LIMITED AND ITS CAPACITY TO MOVE CAREFULLY AND MODERATELY GREATLY LESSENED. HE SAID HE WANTED TO STRESS THIS PROBLEM, BECAUSE IT WAS POTENTIALLY AN ISSUE THAT COULD POISON US-COLOMBIAN RELATIONS AS NO OTHER ISSUE IN RECENT TIMES. POPULAR FEELING WAS GROWING RAPIDLY, AND HE WANTED US TO KNOW THAT THE GOC WANTED TO FIND AN EQUITABLE HELPFUL SOLUTION. IF

THIS DID NOT RESULT IT WOULD NOT BE BECAUSE THE GOC DID NOT TRY.

6. COMMENT. TEXACO VP FOR LATIN AMERICA, ROBERT SHIELDS, ARRIVED IN BOGOTA JAN 22 FOR INFORMAL TALKS. HE HAD INFORMED THE AMBASSADOR ON JAN 22 OF A POSSIBLE APPROACH OF THIS KIND, AND STATED HE WOULD LISTEN AND TAKE THE INFORMATION BACK TO HIS MANAGEMENT FOR CONSIDERATION. HE EVIDENCED NO PARTICULAR REACTION AND STATED OBVIOUSLY MUCH DEPENDED ON TERMS OF PROPOSAL. TALKS ARE APPARENTLY CURRENTLY UNDERWAY.

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